

# Shipping and Delivery Charges

## Sales and Use TAX FACTS

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For additional information  
you may wish to order  
Regulation 1628,  
*Transportation Charges*,  
or talk to a Board of  
Equalization representative.  
For assistance, please call  
800-400-7115  
TDD/TTY 800-735-2929.  
Board website and Member  
contact information:  
[www.boe.ca.gov](http://www.boe.ca.gov)

It's not always easy to determine whether California sales tax applies to charges for delivery, shipping, and handling. To help you apply tax properly in your business, we've created the quick reference guide printed on the reverse. It gives examples of common shipping situations and charges and explains how sales tax applies in each situation. Be sure to read the notes and exceptions in the chart (the "fine print") and to remember that more than one condition may apply to your specific sale. Before you turn the page, please consider this basic information . . .

### Make sure that your invoices are clear

Be sure that your invoices and receipts use specific terms to describe delivery-related charges. If you are charging for shipping, which *may not* be taxable, use terms such as *shipping*, *delivery*, *freight*, or *postage*. If you are charging for handling, which *is* taxable, be sure to use that term on your invoice. This will help you determine how to apply tax and will make things clearer for your customers. It will also make it easier for everyone if we audit your records.

### Keep good records

It's important to keep good records that fully document your shipping costs. Acceptable forms of documentation include

- Bills of lading
- Freight invoices
- Express receipts or express company invoices
- Parcel post receipts or shipment records
- Sales invoices showing transportation charges and shipping instructions
- Delivery receipts and expense vouchers supporting your delivery expense
- Correspondence stating requirement and completion of delivery
- Title transfer agreements

*Please note:* If you do not keep records showing the *actual cost* of an individual delivery, tax applies to your entire delivery charge if it is made in connection with a taxable sale.

### Take care when you complete your sales and use tax return

You must report your total sales for the reporting period on your sales and use tax return. If your total sales include *nontaxable* delivery charges, you should take a deduction for those amounts on the line for "Other" deductions. If you don't take the deduction, you'll pay more tax than you owe.

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State Controller

## Applying Sales Tax to Delivery-Related Charges

Condition of sale or type of delivery charge	Notes and exceptions
Sale is not a taxable transaction.	Related charges are not taxable. <i>Ignore rest of table.</i>
Sale is a taxable transaction.	Delivery-related charges may be nontaxable, partially taxable, or fully taxable. <i>See rest of table.</i>
<b>Delivery-related charge not taxable</b>	
<p><i>All of these conditions must apply:</i></p> <ul style="list-style-type: none"> <li>You ship directly to the purchaser by common carrier, contract carrier, or US Mail;</li> <li>Your invoice clearly lists delivery, shipping, freight, or postage as a separate charge;</li> <li>The charge does not exceed your actual cost for delivery to customer.</li> </ul>	<p>1) <i>Exception:</i> Charge is taxable if you do not maintain records that show the <i>actual cost</i> of the delivery (see reverse).</p> <p>2) If the tax amount calculated for the sale was based on the cost of the item plus the nontaxable delivery charge, you must refund the tax amount collected on the delivery or pay that amount to the Board.</p> <p>3) See sections that discuss “handling” charges.</p>
<b>Delivery-related charge partially taxable (for taxable sales only)</b>	
Delivery meets conditions in box above, <i>except</i> : your charge to customer for delivery is higher than your actual shipping cost.	Portion of delivery charge that exceeds actual delivery cost is taxable.
You make one charge for “shipping and handling” combined.	Handling portion of charge taxable; shipping portion may be taxable — see other criteria in this table.
<b>Delivery-related charge taxable (for taxable sales only)</b>	
You do not keep records that show the actual cost of the delivery.	Many businesses charge standard amounts for shipping and do not track the cost of individual deliveries.
You deliver merchandise with your own vehicles.	<i>Exception:</i> May not be taxable if title to merchandise transfers to buyer before delivery. This is unusual — contact the Board for information.
You make a separately stated charge for “handling.”	“Handling” charges are taxable. See also section on one charge for “shipping and handling.”
You include a delivery charge in the unit price of the item sold.	Sample invoice entry: “\$6.50 per bale, including delivery.”
Your charge to your customer represents the cost of shipping the merchandise to your place of business (“freight-in”).	
You make a sale for a delivered price (sales agreement specifies that delivery is included in price, whether delivery charge is listed separately, included in per-item cost, or listed as “freight prepaid”).	<i>Exception:</i> Delivery charges may not be taxable if title to merchandise transfers to buyer before delivery. This is unusual — contact the Board for information.

Note: The statements in this fact sheet are general and are current as of March 2005. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.